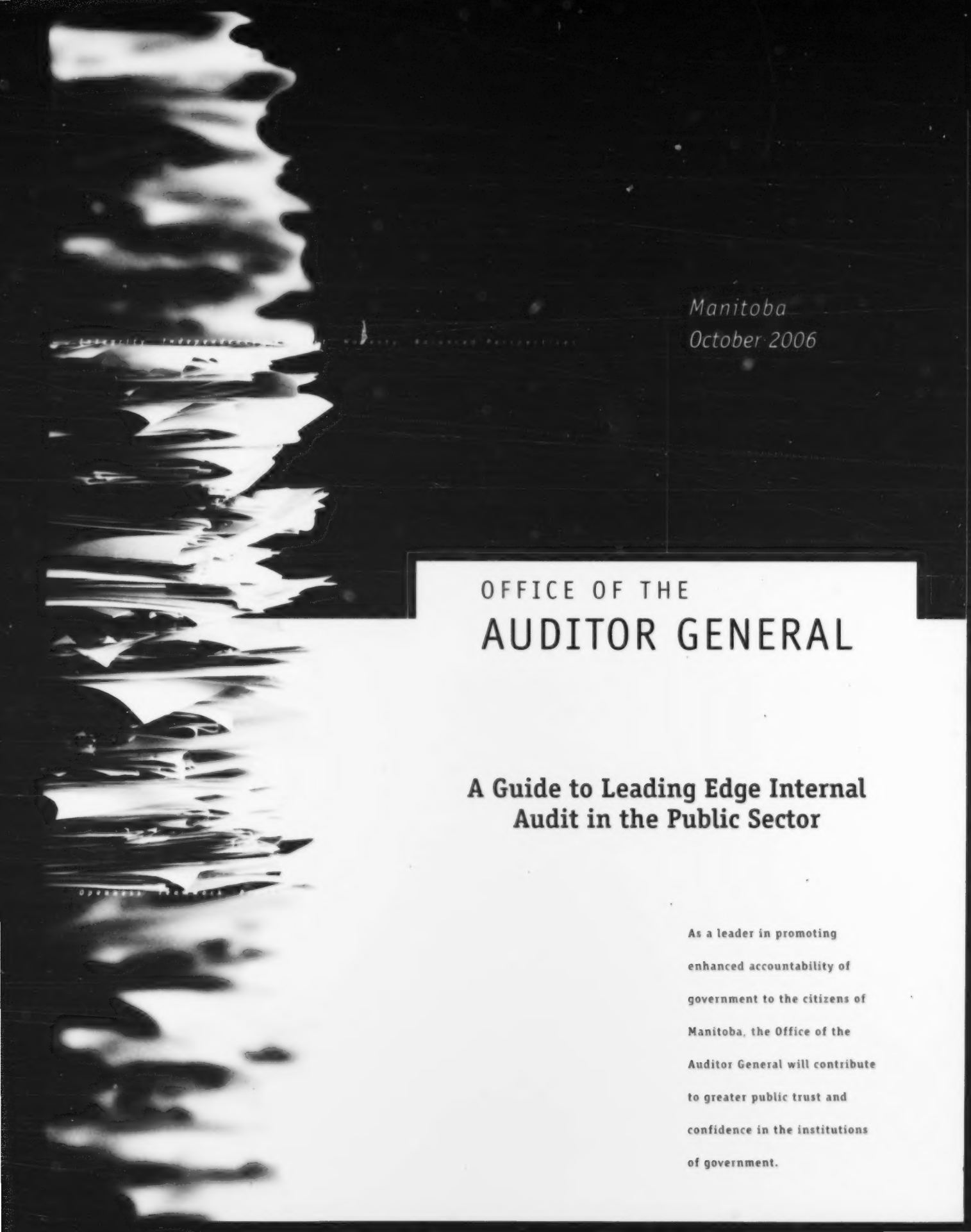

Manitoba
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OFFICE OF THE
AUDITOR GENERAL

A Guide to Leading Edge Internal Audit in the Public Sector

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Auditor General will contribute to greater public trust and confidence in the institutions of government.

Vision

As a leader in promoting enhanced accountability of government to the citizens of Manitoba, the Office of the Auditor General will contribute to greater public trust and confidence in the institutions of government.

Mission

To contribute to effective governance by the Manitoba Legislature, we provide the Members of the Legislative Assembly with independent assurance and advice on:

government accountability information;
compliance with legislative authorities; and
the operational performance of government.

Values

IN INTERPERSONAL RELATIONSHIPS

Respect ***Honesty***
Integrity ***Openness***

IN ACHIEVING OUR VISION AND MISSION

Teamwork
Independence
Balanced Perspectives
Professional Excellence

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APPENDIX A: SOURCES OF INFORMATION

Introduction

This document is intended to be used as a resource by public sector organizations to provide them with a guide to good practices in internal audit. The recommended practices are based on the Institute of Internal Audit Standards (IIA Standards) and extensive literature on internal auditing (**Appendix A**).

Regardless of size, public sector organizations are encouraged to have internal audit services to provide the board of directors (or Deputy Ministers, where applicable) with timely information on whether the organization's systems and processes are working as optimally as possible. Some organizations believe their size does not justify having internal audit services. While size of an organization and its complexity affect the number of internal audit staff, a small size of operation does not justify forgoing internal audit services. Whether large or small, organizations benefit from internal audit to identify and implement ways of maximizing the economy, efficiency and effectiveness of their operations. Smaller organizations can however have internal auditing that is contracted out instead of having in-house, full-time staff.

The Office of the Auditor General is committed to best practices throughout the public sector and encourages all public sector organizations to assess their internal audit functions.

1.0 Modern Internal Auditing

Modern, leading edge internal audit services are characterized by *"a shift toward more proactive auditing rather than after-the-fact detective auditing. The intention is to identify risks, trends or breakdowns before problems occur"*.[1] Key strategies aimed at ensuring that internal audit services are leading edge are as follows[2]:

- ✓ Establish an Internal Audit Committee with some members who are external to the organization.
- ✓ Adopt and comply with professional standards.
- ✓ Recruit and retain capable staff.
- ✓ Establish and communicate a clear vision and strategy.
- ✓ Demonstrate the value of internal audit.
- ✓ Understand client/stakeholder needs.
- ✓ Focus on risk.
- ✓ Monitor internal controls.
- ✓ Educate management on risks and controls.
- ✓ Improve audit processes.
- ✓ Improve the communication of results.
- ✓ Continuously strive to improve quality in internal audit services.

[1] Jeffrey Ridley and Andrew Chambers. *Leading Edge Internal Auditing*. ICSA Publishing, 1998, pg. 15.

[2] Jeffrey Ridley and Andrew Chambers. *Leading Edge Internal Auditing*. ICSA Publishing, 1998, pgs. xxxiii, and 10 to 17.

2.0 The Pivotal Role of an Internal Audit Committee[3]

An Internal Audit Committee plays a critical role in the overall functioning of an internal audit group. When fully functional, an Internal Audit Committee establishes the importance and executive direction for an internal audit group. In order for an internal audit function to have a higher profile and significance there needs to be an Internal Audit Committee that sets the appropriate tone at the top.

Clear roles and responsibilities should be given to an Internal Audit Committee including the following:

- ✓ Approving the audit charter that will guide the activities of an internal audit group.
- ✓ Having input into and approving an internal audit group's strategic plan, mid-term operational plan, and annual work program of audits.
- ✓ Approving the appointment and salary of the chief audit executive.
- ✓ Making enquiries of management and the chief audit executive to determine if there are scope or budgetary limitations that impede an internal audit group's ability to function properly.
- ✓ Approving the scope of an external assessment of an internal audit group to be undertaken every 5 years (expected by IIA Standards).
- ✓ Providing a forum for discussion to identify areas worthy of examination by an internal audit group.

[3] For further information on Audit Committees see the Office of the Auditor General publication, *Enhancing Audit Committee Practices in the Public Sector*.

3.0 Key Attributes of an Internal Audit Function

An internal audit group should demonstrate the following characteristics:

- Maintain an appropriate level of independence and objectivity (**Section 3.1**).
- Have clear roles and responsibilities (**Section 3.2**).
- Provide audit staff with guidance that is consistent with professional standards in planning and executing work (**Section 3.3**).
- Have sufficient and appropriate resources to carry out its work (**Section 3.4**).
- Have regular and timely communication on its findings and recommendations (**Section 3.5**).
- Systematically conduct regular follow-ups on audit recommendations (**Section 3.6**).
- Have sufficiently comprehensive processes for continuously monitoring its effectiveness, including periodic internal and external quality assessments of all aspects of its operation (**Section 3.7**).
- Adding value through its work (**Section 3.8**).

These characteristics were developed based on several sources including IIA Standards and an extensive body of literature on internal audit (**Appendix A**).

3.1 INDEPENDENCE AND OBJECTIVITY

An internal audit group should maintain an appropriate level of independence and objectivity. The two main ways in which it can maintain its independence and objectivity are through:

- Reporting relationships (**Section 3.1.1**); and
- Avoidance of bias and conflict of interest (**Section 3.1.2**).

3.1.1 Reporting Relationships

Reporting to an internal audit committee enhances the perception that an internal audit group functions independently from management. Thus the trend is increasingly to have a chief audit executive report functionally to the Internal Audit Committee.

To ensure the objectivity which is necessary to the effective functioning of an internal audit committee it should include persons who are external to the organization. Having external members also enhances an internal audit committee's ability to challenge the risk, control, governance processes, and management assertions that have been put in place.

Another important reason for establishing an Internal Audit Committee is that it can facilitate an internal audit group's ability to contribute to better governance. An internal audit group can achieve this by working closely with an Internal Audit Committee to address organization-wide risk and control issues.

Check-List of Good Practices - Reporting Relationships

- An internal audit group should report functionally to an internal audit committee and administratively to a senior executive.
- Ideally, the internal audit committee should include persons external to the organization. In the absence of an internal audit committee, the chief audit executive should report to a level within the organization that ensures that the internal audit group is able to have broad audit coverage, and to fulfill its responsibilities independently and objectively.
- Reporting functionally to an internal audit committee means the committee:
  - ✓ approves the audit charter;
  - ✓ approves short and long term plans;
  - ✓ approves appointment and salary of the chief audit executive;
  - ✓ makes enquiries of management and the chief audit executive to determine if there are scope or budgetary limitations that impede internal audit's ability to function properly;
  - ✓ ensures that the internal audit function is adequately resourced;
  - ✓ approves the scope of external assessments of the internal audit group; and
  - ✓ provides a forum for discussion to identify areas worthy of examination by internal audit.
- Reporting administratively to a senior executive relates to day-to-day operations of internal audit including:
  - ✓ budgeting and accounting;
  - ✓ human resource administration;
  - ✓ internal communication/information flow; and
  - ✓ administration of internal policies and procedures.

3.1.2 Avoidance of Bias and Conflict of Interest

Policies and procedures should be in place to help an internal audit group ensure against the risk of familiarity or perceived risk of familiarity by virtue of long association.

Check-List of Good Practices - The Avoidance of Bias and Conflict of Interest

- An internal audit group should have a process in place to ensure that:
  - ✓ An internal auditor does not undertake audit work regarding operations/services for which he/she was previously responsible;
  - ✓ An internal auditor who provides consulting services regarding a particular operation/service is not the same auditor who provides assurance on that same operation/service; and
  - ✓ Internal auditors are rotated periodically whenever it is practical to do so; alternatively some other method is put in place to address the risks associated with having the same auditors responsible for auditing the same unit/functional area over a prolonged period.

3.2 ROLES AND RESPONSIBILITIES

An internal audit group should have clear roles and responsibilities. Roles and responsibilities should be communicated in:

- An audit charter (**Section 3.2.1**); and
- Position descriptions (**Section 3.2.2**).

3.2.1 Audit Charter

An audit charter is intended to provide a more comprehensive statement of the purpose, authority, responsibilities and reporting relationship of an internal audit group. The audit charter should be approved by the Internal Audit Committee.

Check-List of Good Practices - An Audit Charter

- The content of an audit charter should:
  - ✓ identify the purpose, authority and responsibility of the internal audit group;
  - ✓ establish the internal audit group's position within the organizational structure;
  - ✓ define the reporting relationship of the unit, both functionally and administratively;
  - ✓ define the internal audit group's relationship with the organization's external auditor;
  - ✓ have provisions that authorize access to records, personnel, physical property, and attendance at relevant meetings; and
  - ✓ define the scope of internal audit activities, including any restrictions.
- The chief audit executive should periodically assess whether the purpose, authority, and responsibility, as defined in the charter, are still adequate. Results of the assessment should be communicated to the internal audit committee.
- The audit charter, and any changes, should be approved by the Internal Audit Committee.

3.2.2 Position Descriptions

Position descriptions should identify job duties and the level of competency at which each position is expected to carry out their duties. As well, position descriptions should be reviewed periodically to ensure they reflect changes in expectations and adhere to current approaches to position descriptions.

Check-List of Good Practices - Position Descriptions

- The internal audit group should have written position descriptions for each level of audit staff.
- The position descriptions for audit staff should identify required qualifications and competencies including:
  - ✓ proficiency in applying internal audit standards, procedures and techniques;
  - ✓ proficiency in accounting principles and techniques;
  - ✓ an understanding of management principles required to recognize and evaluate the materiality and significance of deviations from good business practices;
  - ✓ an appreciation of fundamentals of subjects such as accounting, economics, commercial law, taxation, finance, quantitative methods, and IT;
  - ✓ effective interpersonal skills; and
  - ✓ skills in oral and written communication.

3.3 PROFESSIONAL STANDARDS IN PLANNING AND EXECUTING WORK

An internal audit group should provide its auditors with guidance that is consistent with professional standards in planning and executing their work. This guidance should be provided on three fronts:

- A code of conduct for auditors to follow (**Section 3.3.1**);
- Policies/procedures (**Section 3.3.2**); and
- Long-term, mid-term and annual plans (**Section 3.3.3**).

3.3.1 Code of Conduct

The purpose of a code of conduct is to promote an ethical culture in the profession of internal auditing.

Check-List of Good Practices - A Code of Conduct

An internal audit group should have a written code of conduct that addresses the following principles:

Integrity:	Internal auditors shall perform their work with honesty, diligence, and responsibility.
Objectivity:	Internal auditors shall not accept anything (e.g., gifts) or participate in any activity or relationship that may impair or presume to impair their unbiased assessment or professional judgment.
Confidentiality:	Internal auditors shall be prudent in the use and protection of information acquired in the course of their duties.
Competency:	Internal auditors shall engage only in those services for which they have the necessary knowledge, skills, and experience.

3.3.2 Policies and Procedures

IIA Standards expect that an internal audit group will establish policies and procedures to guide internal audit staff in carrying out their work. Policies and procedures should be periodically reviewed to ensure they are up to date with changes in professional standards.

Check-List of Good Practices - Policies and Procedures

- There should be a manual of policies/procedures that guide auditors in their work. The content of these policies/procedures should be consistent with IIA Standards and cover the following topics:

IIA Attribute Standards

- ✓ Purpose, Authority, and Responsibility.
- ✓ Independence.
- ✓ Proficiency and Due Care.
- ✓ Quality Assurance.

IIA Performance Standards

- ✓ Managing the Internal Audit Activity.
- ✓ Nature of the Work.
- ✓ Engagement Planning.
- ✓ Performing the Engagement.
- ✓ Communication of Results.
- ✓ Monitoring Progress.
- ✓ Resolution of Management's Acceptance of Risk.

3.3.3 Long-Term, Mid-Term and Annual Plans

Typically, internal audit groups prepare an audit plan which identifies the audit work they will undertake. However, there should also be plans that establish an internal audit group's objectives, strategies, and approaches to running its operation. In this regard, it is important to distinguish between strategic planning and more detailed mid-term and operational plans otherwise strategic thinking in an organization may not receive the emphasis it requires.

Check-List of Good Practices - Audit Plans

- The internal audit group should have a long-term strategic plan, a mid-term plan and annual work program to guide its work.
- Long-term strategic plans that are prepared with input from and approval by the internal audit committee should be risk based. They would generally include:
  - ✓ a description of the goals/objectives of internal audit;
  - ✓ key organizational issues and risks of the organization which are prepared in consultation with senior management, the internal audit committee, the external auditor and other relevant parties; and
  - ✓ the strategies/priorities in order to address issues and risks.
- Mid-term operational plans that are prepared with input from and approval by the internal audit committee should be prepared to assist an organization in the implementation of the key strategies/priorities identified in the strategic plan. Typically these plans would include aspects such as:
  - ✓ staffing, competency needs;
  - ✓ professional development;
  - ✓ information technology requirements;
  - ✓ budgeting requirements; and
  - ✓ how performance monitoring, measurement, and internal/external assessments will be operationalized.
- Annual work programs that are prepared with input from and approval by the internal audit committee should be developed based on the long-term strategic plan and the mid-term plan. Generally, such a program would identify:
  - ✓ the audits and other types of projects that will be carried out during the year and rationale for selecting each;
  - ✓ staffing for each project, when it is expected to start-up and the time budgeted for each;
  - ✓ financial budgets;
  - ✓ the performance measures that will be used to evaluate the performance in relation to established goals/objectives and strategies (see also **Section 3.7**); and
  - ✓ as applicable, the plans for internal/external assessments of an internal audit group (see also **Section 3.7**).

3.4 RESOURCING

An internal audit group should have sufficient and appropriate resources to carry out its work. Three key aspects of resourcing are:

- Assigning auditors to projects (**Section 3.4.1**);
- Tools and professional development opportunities (**Section 3.4.2**); and
- Budgets (**Section 3.4.3**).

3.4.1 Assigning Audits to Projects

An internal audit group needs to have a process for matching an auditor's skills to audit assignments.

Check-List of Good Practices - Staff Assignments

- ✓ An internal audit group should ensure that audit staff assigned to a project have the necessary qualifications, skills and experience to carry out the work.
- ✓ Supplementing knowledge, skills, and experience gaps with supervision and/or external resources (e.g., consultants) as may be needed.
- ✓ In cases where consulting engagements are in areas that audit staff lack knowledge, skill and experience and where obtaining external assistance is not feasible, a chief audit executive should decline an engagement.

3.4.2 Tools and Professional Development Opportunities

Staff should be provided with the appropriate tools and ongoing professional development opportunities. A key aspect of this is for the internal audit group to periodically undertake needs assessments and to develop operational plans for how they will meet their needs (e.g., an information technology plan, a professional development plan, and so forth).

Check-List of Good Practices - Audit Tools and Professional Development

- ✓ Auditors should have access to appropriate technologies to assist them in carrying out their work.
- ✓ There should be a program of continuing education for internal audit staff.
- ✓ The program of continuing education should be based on regular assessments of individual employee needs/skills that require strengthening.

3.4.3 Budgets

Having an appropriate level of funds to operate is vital to the ability of an internal audit group to add value on a timely basis. Without sufficient resources, an internal audit group is limited in the extent to which it can identify risks before they escalate into major problems.

Check-List of Good Practices - Budgets

- ✓ Budgets should be based on audit plans.
- ✓ Annual budget allocations should be sufficient for the internal audit group to carry out its approved plans.

3.5 COMMUNICATION OF AUDIT FINDINGS AND RECOMMENDATIONS

An internal audit group should have regular and timely communication on its findings and recommendations. Appropriate sharing of findings and recommendations involves three main dimensions:

- Quality of audit reports (**Section 3.5.1**);
- Access to audit reports (**Section 3.5.2**); and
- Internal reporting on annual performance (**Section 3.5.3**).

3.5.1 Quality of Audit Reports

An internal audit group should communicate in writing accurate, objective, clear, concise, constructive, complete and timely information. They should include background information, the audit objectives, scope, approach, observations/findings, conclusions and recommendations.

Audit reports should be given to the audited entity (auditee) on a timely basis.

Check-List of Good Practices - Internal Audit Reports[4]	
Background	• Identifies the organizational units and activities reviewed and provides relevant explanatory information. • Indicates whether the report covers a scheduled engagement or is responding to a request. • Includes the status of observations, conclusions, and recommendations from prior audits.
Objectives	• Statements that define intended engagement accomplishments.
Scope	• Identifies the audited activities. • Identifies the time period reviewed. • Identifies related activities that are not reviewed.
Approach	• Establishes the procedures for identifying, analyzing, and evaluating sufficient information to achieve the engagement's objectives.
Observations/ Findings	• Identifies the standards, measures, or expectations used in making an evaluation and/or verification (criteria). • Identifies the factual evidence that the internal auditor found during the examination that supports the conclusions and recommendations (conditions). • Identifies the reason for the difference between the expected and actual conditions (causes). • Identifies the risk or exposure the organization and/or others encounter because the condition is not consistent with the criteria (effect).
Conclusions	• Should be clearly identified. • Should be based on appropriate analyses and evaluations. • Should encompass the entire scope of an engagement. • Should relate directly to objectives.
Recommendations	• Should be based on engagement observations and conclusion. • Should either be general or specific and call for action to correct existing conditions or improve operations. • Should suggest approaches to correct or enhance performance.

Based on the IIA Professional Practices Framework.

3.5.2 Access to Audit Reports

Often audit reports offer lessons and learnings for divisions/units beyond the one that was the subject of the audit. For this reason, sharing audit findings more widely is useful to an organization as a whole. To determine when it is appropriate to share audit reports and with whom, an audit group should develop a policy and procedure on this matter. The intent of such a policy and procedure is to ensure a consistent approach is used in regard to access to internal audit reports. The policy on sharing of internal audit reports should be based on the principle of accessibility wherever possible as a way to provide opportunities for learnings to others.

Internal audit reports should be shared with an entity's external auditor so that this information can be factored into their risk assessment of the

audit they are performing for the purposes of issuing a financial statement opinion on the entity's annual audited financial statements.

Check-List of Good Practices - Access to Audit Reports

- ✓ The organization's external auditor should receive a copy of internal audit reports.
- ✓ An internal audit group should adopt a policy and procedure for reviewing and making decisions on requests for audit reports. The policy and procedure should be approved by the internal audit group.

3.5.3 Internal Reporting on Annual Performance

A chief audit executive should communicate in writing, at least annually, to the internal audit committee and the person to whom he/she reports functionally and administratively on the performance of the internal audit group. This communication should present the internal audit group's output and outcomes relative to its plan. It should be aimed at raising awareness regarding audit issues on a corporate level.

Annual reporting offers a number of benefits and uses, among them[4]:

- maintaining managerial accountability;
- having a basis for proactive management;
- informed decision-making (by an internal audit committee, an internal audit group, and management); and
- a valuable communication link with different divisions within an organization.

Check-List of Good Practices - Annual Performance Reporting

- An annual report to those whom an internal audit group reports should highlight:
  - ✓ audit objectives, findings, and recommendations for each project;
  - ✓ findings from follow-ups on the implementation of audit recommendations;
  - ✓ significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the internal audit committee and/or senior management;
  - ✓ how the activities, outputs and outcomes of the internal audit group are fulfilling its audit charter and planned performance; and
  - ✓ a synopsis of the results of internal/external assessments of the internal audit group.

[4] Source: Manitoba Finance Comptroller's Division, *The Management Practices Guide*, (undated), Chapter 5, pg. 55.

3.6 FOLLOW-UP ON AUDIT REPORTS

An internal audit group should systematically conduct regular follow-ups on its audit recommendations to management.

Check-List of Good Practices - Follow-Up on Audit Reports

- ✓ An internal audit group should have a clear process by which at least once every three years it follows up on its recommendations to ensure management has taken timely and adequate action to implement the recommendations or that management has accepted the risk of not taking action.
- ✓ The follow-up process should be documented.
- ✓ Follow-ups should be for both assurance and consultation work.
- ✓ If management accepts a level of risk that a chief audit executive believes is unacceptable, the matter should be discuss and if not resolved a chief audit executive should bring it to the attention of the internal audit committee/the person to whom he/she reports for resolution of issues.

3.7 PERFORMANCE MEASUREMENT AND ASSESSMENTS

An internal audit group should have sufficiently comprehensive processes for continuously measuring its effectiveness including periodic internal and external assessments of all aspects of its operation. Three dimensions are needed for a sufficiently comprehensive process:

- A performance measurement system (**Section 3.7.1**);
- Periodic internal assessments (**Section 3.7.2**); and
- Independent external assessments (**Section 3.7.3**).

3.7.1 A Performance Measurement System

Performance measurement provides evidence-based information on whether an internal audit group's resources are being utilized appropriately with sufficient regard to economy and efficiency.

Check-List of Good Practices - Performance Measurement System

- An internal audit group should have performance measures that are based on its specific goals/objectives and performance targets that are derived from the internal audit group's plans/strategies.
- Performance measures should provide information that enables the internal audit group to determine if its activities are achieving its charter and planned results (i.e., the aims expressed in its various types of plans).
- The performance measurement system should be documented and should be clear on:
  - ✓ performance data that is to be collected;
  - ✓ the frequency of data collection;
  - ✓ who is responsible for data collection;
  - ✓ data quality control;
  - ✓ who generates performance data reports; and
  - ✓ who receives such reports.
- Performance measures should cover the following aspects:
  - ✓ stakeholder satisfaction;
  - ✓ internal audit processes (e.g., risk assessment/audit planning; performing the audits; reporting; and value added); and
  - ✓ innovation and capabilities (training, technology, knowledge of business).

A performance measurement system could include performance measures that relate to expected results in the categories identified in **Figure 1**.

FIGURE 1

Performance Measures for Internal Audit

CATEGORIES	EXAMPLES OF ASPECTS TO MEASURE
Work Processes	• Compliance with Internal Audit Standards. • Compliance with internal audit charter. • Time spent on audits compared to planned time. • Rate of completion of audits on schedule.
Innovation and Capabilities	• Planned training versus training provided. • Application of Technology to facilitate audit work. • Use of leading edge audit methodologies/approaches.
Levels of Expenditure	• Expenditures compared to actual allocation. • Average cost per audit project. • Savings generated compared to the cost of internal audit. • Comparisons with previous time periods.
Client/Stakeholder Satisfaction (includes an internal audit committee and audited entities)	• Accuracy, objectivity, clarity and constructiveness of audit reports. • Timeliness of issuing audit reports. • Responsiveness to internal audit committee requests and direction. • Take up of recommendations by management. • Adding value through audit work.

Source: Adapted from Jeffrey Ridley and Andrew Chambers, *Leading Edge Internal Auditing*, ICSA Publishing, 1998; and IIA *Practice Advisory 1311-2: Establishing Measures*.

3.7.2 Periodic Internal Assessments

Annual performance measurement differs from periodic internal assessments. The former provides an annual picture of what has occurred in the year relative to planned expectations. The latter uses performance information collected over a period of a few years in order to evaluate the trends, examine the causes of these trends and to develop strategies to address issues.

Check-List of Good Practices - Periodic Internal Assessments

- ✓ The purpose of internal assessments is to determine: compliance with the internal audit charter, the IIA Standards, and the efficiency and effectiveness of the unit in meeting needs of its various stakeholders.
- ✓ Internal assessment reports should indicate the scope and approach of the review as well as the findings and required action.
- ✓ There should be a plan of implementation to address areas identified in the assessment as requiring change.
- ✓ The results of the internal assessment should be shared with the internal audit committee and the person to whom a chief audit executive reports.

3.7.3 Independent External Assessments

In order to achieve optimum quality assurance and process-improvement benefits, an internal audit group should supplement its internal assessments with an independent external assessment. Internal and external assessments share many aspects in common (**Figure 2**).

Check-List of Good Practices - External Assessments

- External assessments should be conducted at least once every five years. Consistent with IIA Standards, the first review is to be conducted within five years of January 1, 2002.
- Assessments should be conducted by a qualified, independent external reviewer or review team.
- The scope of an external assessment should be approved by an internal audit committee and should consist of the items for an internal assessment and include the following key element:
  - ✓ whether internal audit is meeting expectations of an internal audit committee and the person to whom the chief audit executive reports; and
  - ✓ a determination of whether the audit unit is adding value.
- External review reports should express an opinion on the results of the external assessment and indicate the scope and approach of the review as well as the findings and recommendations for improvements.
- There should be a plan of action prepared by the internal audit group to address areas identified in the assessment as requiring change.
- The results of the external assessment should be shared with the internal audit committee and the person to whom the chief audit executive reports.

FIGURE 2

Features of Internal and External Assessments	
Coverage	• All aspects of an organization's operations and activities/programs should be assessed.
Cyclical	• An organization's operations and activities/programs should be assessed regularly.
Objective	• Assessments should be designed and conducted objectively.
Comprehensive	• Each assessment should provide a thorough review of activities/programs in their entirety including the results achieved through activities/programs.
Planned	• A schedule of assessments should be developed and individual plans prepared for each assessment that details the terms of reference for a particular assessment (i.e., its objectives, scope, performance data that will be required to undertake the review, budget requirements, etc.).
Appropriate	• The assessment approach and process should be suitable to the nature/type of assessment that is to be undertaken and the person(s) selected to conduct the assessment should possess appropriate knowledge of the type of operation, activities/programs to be assessed as well as the right mix of skills to undertake the review.
Related to Plans	• The scope of an assessment should be directly linked to the goals/objectives stated in strategic and other plans (including charters).
Continuous Improvement	• The results of an assessment should be incorporated into an organization's subsequent planning and implementation of improvements should be monitored.

Source: Adapted from Manitoba Finance Comptroller's Division, *The Management Practices Guide*, pg. 85.

The scope of an external assessment as envisaged by IIA should cover the entire spectrum of audit and consulting work performed by an internal audit group (**Figure 3**).

FIGURE 3

Scope of External Assessments

An independent external assessment should be broad in scope and should include an examination of the following:

- Compliance with IIA's Standards and Code of Ethics.
- Compliance with an internal audit group's charter, plans, policies, procedures, practices and applicable legislative and regulatory requirements.
- The extent to which the expectations of an internal audit committee, executive management and operational managers are being met by an internal audit group.
- Ability of an internal audit group to fulfill its governance model (e.g., reporting relationships, accountability requirements, effectiveness and timeliness of communications with key persons/entities that are involved in an internal audit group's processes).
- Suitability of tools and techniques used by an internal audit group.
- The appropriateness of the mix of knowledge, experience, and disciplines within an internal audit group.
- A determination as to whether the audit activity adds value and improves operations of government departments/programs.

3.8 ADDING VALUE

An internal audit group should add value through its work. Adding value involves:

- Taking a proactive approach (**Section 3.8.1**); and
- Formally communicating results (**Section 3.8.2**).

3.8.1 Taking a Proactive Approach

By focusing on risk in the selection of audit projects an internal audit group contributes to *"preventative auditing rather than after-the-fact detective auditing"*.[5] When an internal audit group does not focus its audit work on high risk areas, the organization loses an opportunity to benefit from assessments of their systems and independent assurance that those systems, which are critical to program delivery, are operating effectively and as intended.

Check-List of Good Practices - A Proactive Approach

- ✓ Focus on risk.
- ✓ Focus on corporate audit concerns.
- ✓ Focus on controls.

3.8.2 Formally Communicating Audit Results

The formal communication should share an internal audit group's observations on significant risk exposures, control issues, corporate governance issues, and other related audit matters. A formalized approach to communications provides an opportunity for an internal audit group to enhance its contribution in adding value.

By sharing audit criteria, explaining causes and consequences of audit observations, readers can gain an understanding of the implications and impacts of findings. Audit reports can also provide supplementary information on best practices in appendices.

Check-List of Good Practices - Formal Communication of Audit Results

- ✓ Have a process for regular oral and written briefings to the board of directors, audit committee, and the organization's executives.
- ✓ Produce reports that educate and promote best practices, with clear guidance on why the recommended changes are necessary.

[5] Jeffrey Ridley and Andrew Chambers. *Leading Edge Internal Auditing*. ICSA Publishing, 1998, pg. 15.

SOURCES OF INFORMATION

Appendix A

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Appendix A
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